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AMERICAN TARIFF POLICIES ADAPTED TO THE PRESENT ECONOMIC SITUATION IN RELATION TO FOREIGN TRADE

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WHEN I received the invitation of this distinguished and learned body to speak on the subject of the tariff as applied to present international trade conditions I thought that I was essaying a comparatively easy task. I would have to think back certainly beyond my freshman year at Harvard to recall a time when I have not been thinking or reading or talking to some extent at least about the tariff question. I have been during the last 14 years except for a hiatus of two years a member of the Ways and Means Committee of the House where the tariff is an ever present actuality, certainly of discussion, yet when I composed myself yesterday in an attempt to arrange my thoughts in logical sequence so as to be able to present some concrete views and suggestions on this occasion I found myself close to an *impasse*. Along whatever lines my thoughts strayed in an endeavor to arrive at some brief and definite form of presentment of my conclusions I found myself so to speak "up a stump".

The tariff question has always been a mighty difficult one even in perfectly normal times, one upon which the best minds have differed and in controversy upon which presidential elections have been won and lost, but never before today have there been so many entirely abnormal elements to complicate it.

There are three principal conditions existing which make the solution of the tariff problem infinitely more difficult than ever before. First, the question of its relation to the revenues; second, the question of the immense if not now insuperable difficulty of determining costs of production here and abroad, and third, the question of what consideration ought to be paid to our Allies not only in view of our close relationship with them on account of our cooperation during the war but on account

of the immense amounts of money they owe us, both as payment for the enormous exports we have been sending them and on account of the loans we have advanced to them, now aggregating something like \$10,000,000,000.

First, let me speak of the revenue aspect of the question. When I first came to Congress, and from then on through the Roosevelt and Taft Administrations the receipts from customs were of paramount and vital importance from the revenue standpoint. They constituted at least half and sometimes more of the total revenues of the government. For instance, in the last year of the Roosevelt Administration the receipts from customs were something more than \$300,000,000 out of a total income of something like \$600,000,000. In 1920 the receipts from customs were very slightly more, that is to say, about \$320,000,000, but the total income of the government in that year was nearly \$6,500,000,000. In other words while during the Roosevelt and Taft Administrations the customs furnished about 50 per cent of all the government receipts today they only furnish about 5 per cent.

Notwithstanding the absolute bar, far more effective than any tariff, that the war erected against the importation of certain classes of commodities the total value of imports in the last few years has increased enormously. In 1908 the total value of imports was about \$1,250,000,000. In 1920 \$5,000,000,000. In 1908 45 per cent of all our imports came in free of duty; in 1920 more than 75 per cent. In 1908 the average ad valorem rate on all imports was 22 per cent; in 1920 only about 6 per cent. It would seem obvious under the circumstances that the customs would offer a fruitful field for increased revenue but the trouble is that a tariff law covering all the schedules framed upon a reasonable construction of the protective principle would not yield an additional revenue in my opinion of more than \$350,000,000, which in connection with our present extravagant rate of government expenditure would be relatively only a drop in the bucket. We might of course raise very large sums of money at the custom houses by imposing duties on tea and coffee and other non-competitive articles as Great Britain does but that would be entirely contrary to the protective theory to which the party soon to come into complete power is committed, and which we have received the mandate of the country as I interpret it to put into force.

Short of a general revision of all the tariff schedules it will be in my opinion absolutely impossible to legislate in the direction of increased revenues from the custom houses. Piecemeal revision has proved to be impracticable. The House in the last session sent a number of so-called pop-gun bills to the Senate but the Senate has declined to act, and in my judgment will not act except upon the bill for the conservation of the dye and allied chemical industry which is of vast and vital importance, and the enactment of which I was pleased to observe was one of the few definitely affirmative recommendations contained in the President's message upon the opening of the Congress.

Conceding that no tariff legislation short of a complete general revision can be passed which will in any substantial degree affect the revenue, what are the principal difficulties which confront the Congress in the way of a speedy tariff revision? That brings me to the second phase of the subject, that is to say, the difficulty of determining costs of production. The whole theory of the protective principle rests upon the adjustment of the difference in cost of production as between here and the countries with which we are in competition. Today the commerce of the world is out of joint. In this country even, the one least affected by the cataclysms of the war, certain lines of trade are practically paralyzed. Is it possible under existing conditions to reach an ascertainment of costs of production in this country and costs abroad which would enable us even to approximate the rates of duty which would equalize the difference in these costs? While I concede necessity for the earliest possible revision of the present tariff law which to my mind would bring disaster and destruction to American industry if permitted to continue for any length of time after the complete resumption of international trade I am pretty bearish upon the situation. We intend to take the bull by the horns and to have as complete hearings as possible upon the tariff schedules in the near future and to get all the information possible, but I fear that these hearings are going to develop the fact that we will not have, and no one will be able to give us, information upon which we will in the very near future be able to found any really scientific adjustment of the tariff schedules. I sincerely hope that I am wrong and that during the extra ses-

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sion of Congress which I believe will be called almost immediately, we will be able to complete a thorough and scientific revision of the tariff laws, but I am bound to confess that so far as I can now see into the future the prospect is decidedly hazy.

There is one feature of this whole subject that furnishes an additional complication, one so far as I know unprecedented in the history of tariff legislation. Ought we to discriminate in favor of our Allies? Should this discrimination be made either upon the unselfish theory of helping them on the road to financial stability or upon the more selfish theory of making their debts to us more easy of collection? Let us take first the question of our export trade. We used to consider a large balance of trade in our favor a feather in our cap. Today the question is whether it is not to a certain extent perhaps a liability rather than an asset. In the last year before the war our exports of merchandise had risen to about \$2,500,000,000. The imports were about \$1,800,000,000, leaving a balance of trade in our favor of approximately \$700,000,000. In the last year of the war our exports had increased to more than \$6,000,000,000 and our imports to \$3,000,000,000 leaving a balance of trade in our favor of more than \$3,000,000,000. The apparent excess of exports for the years 1918-1919 and the present year up to the last of September is very nearly \$9,000,000,000.

Some of this has been paid for by loans, by credits granted by the Grain Corporation, the War Department and the Shipping Board, by appropriations by Congress for relief to some of the European countries, by loans made by the War Finance Corporation to banks and exporters in this country to assist in financing exports, by shipments of gold and by the sale here of foreign securities and the re-purchase here of American securities formerly held in Europe, but the payment of Europe's enormous indebtedness to us presents grave problems and its liquidation will no doubt extend over a long period of years.

How far ought we to recognize these conditions in the formulation of a tariff policy? The President in his message to Congress a little more than a year ago on December 2, 1919 went to the extent of saying that no tariff bars should be interposed in the way of enabling the debtor nations to settle these

balances by means of exports to this market of their goods. Having stated that Europe can only have three ways of meeting these obligations, by the establishment of new credits, by imports into this country of gold or by imports of goods, he proceeds to eliminate the first two ways as impracticable and impossible under existing conditions and uses this significant sentence:

Anything, therefore, which would tend to prevent foreign countries from settling for our exports by shipments of goods into this country could only have the effect of preventing them from paying for our exports and therefore preventing the exports from being made.

The logical conclusion to be deduced from this statement would be that no tariff bars should be erected against the free importation into this country of goods from debtor nations, in other words that even the present insignificant bars erected by the Underwood law against the free importation of European goods should be removed.

With this conclusion I am entirely unable to agree. The President goes on to say:

The productivity of the country, greatly stimulated by the war, must find an outlet by exports to foreign countries and any measures taken to prevent imports will inevitably curtail exports.

And later on he says:

Whatever, therefore, may have been our views during the period of the growth of American business concerning tariff legislation we must adjust our new economic life to a changed condition growing out of the fact that American business is full grown and that America is the greatest capitalist in the world.

The enactment into law of such a doctrine would in my judgment bring absolute disaster to American business and industry. I concede of course that conditions have changed, but have they changed to such an extent that we ought to abandon all the standards and policies of the past and forgetting our home market to enter into a mad scramble for the world's market? May I suggest the certainty even if that were a wise policy that we would cut a pretty sorry figure in attempting to gain the world's market once we had lost our market here at home. For myself I am willing to go to any reasonable extent to

make the paths of our Allies towards financial and industrial rehabilitation as easy as possible, but I balk at giving them free rein in the American market. I may be old-fashioned but I still cling to the belief that the American market is primarily for the American producer and that unless he can have a firm foothold here any effort to compete for the world's market will come to nought.

Let us look for a moment at this proposition from another point of view, that is to say from the point of view of making it as easy as possible for the Allies to pay their debts to us by the freest possible importation of goods. Would the lowering of the tariff bars to the world enable them to do this? It seems to me that there is a fundamental fallacy in this argument. Would the abandonment of any measures restricting importations into this country nominally in the interest of those of our Allies who are our largest debtors in the end redound so much to their benefit as to the benefit of other countries who owe us nothing? Our principal debtor nations both for exports and credits advanced are Great Britain, France, Italy and Belgium. In all of them the cost of production and the price of labor is relatively high. Is it not obvious that duties low enough to invite large importations from those countries would invite even larger importations from Japan and other low-cost countries? To my mind an invitation to the world to compete with entire freedom in the American market would in fact be accepted by those countries whom we least desire to benefit and would result not so much to the benefit of our late Allies and greatest debtors as to their ultimate discomfiture. If we shall decide that it is a wise policy to give preference to the debtor nations so far as tariffs are concerned it seems to me that there is but one practical way to bring it about and that is through the medium of separate reciprocal trade agreements. I concede that such agreements would be difficult of negotiation but they ought not to be impossible or give rise under the circumstances to international complications. It might be greatly to the benefit of England or France or Italy or Belgium and not greatly to our detriment to obtain certain advantages over other countries in the shipment of certain kinds of goods into our market in return for which it might be greatly to our advantage and not greatly to

their detriment to give advantages to certain American goods in their market.

As to whether or not this would be a wise policy I am not now prepared to say but if we are to discriminate in favor of our Allies as against other nations this seems to me the only practical way to accomplish it.

I reiterate my realization of the fact that conditions have greatly changed as a result of the world war. We have become the leading creditor nation of the world and that together with certain other elements and facts must now be taken into consideration in the formulation of an American tariff policy, but I rigidly adhere to the belief that there is nothing inconsistent in retaining our home market and at the same time occupying a commanding position in the world market. In fact I am unable to see how we can successfully compete with other nations at all unless we retain a commanding position in our market at home.

I am willing to go far in helping toward financial rehabilitation those nations which have suffered far more than we as a result of the war but it must not be at the sacrifice of American industrial independence.